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Discount Store News®

SECOND CLASS

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Membership Merger Mania

A&P Joins the Club: Supermarket Catches Warehouse Club Fever

SKOKIE, Ill. — Another powerful national retailer has jumped into the membership warehouse club industry, joining Wal-Mart, Kmart and Price Co.

The Great A&P Tea Co. this month purchased 7.3 million newly issued shares of stock in the Warehouse Club, the 10-unit membership club operator based here, for $10.95 million ($1.50 per share). Pending approval by stockholders, A&P will now control some 50.8% of Warehouse Club stock. The stock was trading at 88 cents per share on Nov. 12, the day before the sale announcement.

However, the membership club will operate as an independent subsidiary, said Warehouse Club president Sherwin Deutchman.

"They're a majority shareholder, and we will work with them as partners, but we'll still be independent," he said. "Of course they'll have representation on our board of directors, but present management will remain and help Warehouse Club grow in the future."

According to Deutchman, A&P's interest was piqued by the realization that at some point in the future, it would have to compete with the booming warehouse industry.

"So like Wal-Mart, they decided that they'd rather compete with themselves," Deutchman said. The nearly $11 million purchase price will fall to the bottom line and be used for expansion, he added.

"And, we now have a deep pockets backer who can

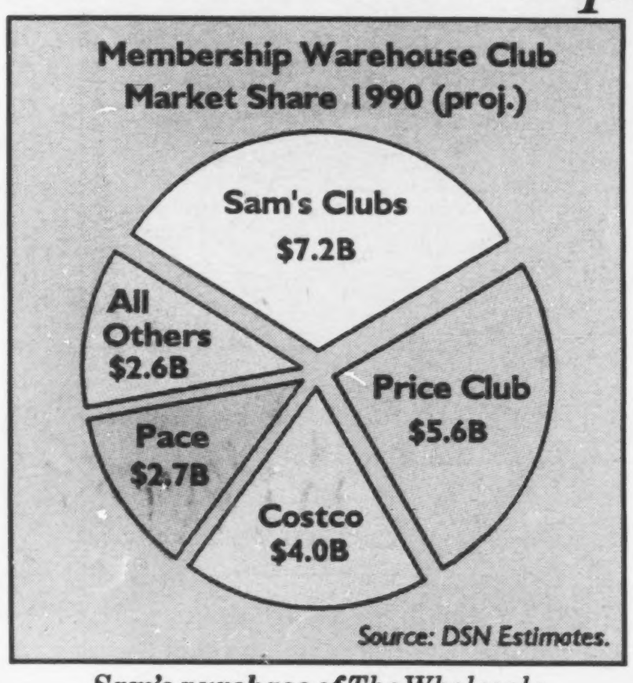
(Continued on page 26)

Sam's Captures Midwest Club Market With Wholesale Club Acquisition

By Pete Hisey

BENTONVILLE, Ark. — The wholesale club industry took another turn toward consolidation with the purchase early this month of The Wholesale Club by Wal-Mart, operator of the newly renamed Sam's Clubs.

The 27 Wholesale Club units will offer the 141-unit Sam's instant strength in the Midwest, as well as management depth as the Wal-Mart division overtakes Price Co. as the largest volume membership wholesale operation in the nation.



***Sam's purchase of** The Wholesale Club thins the membership industry to four major players.*

The move was made partially in response to Kmart's acquisition this summer of Pace Membership Club—a move that turned Pace into a major warehouse club player. The industry now consists of four first-tier companies—Sam's, based in Bentonville, Ark.; Price Club, San Diego; Costco, Kirkland, Wash.; and Pace, Aurora, Colo.—and a rapidly shrinking number of smaller operators, like Chicago-based Warehouse Club (which was recently purchased by A&P, see accompanying story); BJ's, Natick, Mass.; and Price Savers, Salt Lake City. Another smaller warehouse club operation, Club Wholesale, Meridian, Idaho, recently adopted an office-supplies-only strategy.

Wal-Mart paid roughly $180 million for the chain, which reported $330 million in sales in the most recent six month reporting period. However, most of the purchase price (which works out to slightly over $6 million per store, not much more than the cost of building new ones) will be paid in Wal-Mart stock. The price worked out to $21 a share, a significant premium, given that the stock had been trading at a little over $15 the day before the Nov. 6 announcement of the merger/-acquisition.

"We are very pleased with this merger," said Wal-Mart president David Glass, in a prepared statement. "We believe that the clubs and operations of The Wholesale Club will complement the current operations of Sam's Club Division and will give us a significant presence in some exciting new markets. We also believe that The Wholesale Club organization will be an important addition to our company team."

The Wholesale Club, ironically, was undertaking a significant expansion at the time of the sale, opening three stores in the Chicago market, a market that Sam's and Wal-Mart have been surrounding for the past two years.

Founded in 1982 by discount industry pioneer John Geisse, The Wholesale Club built up steam slowly. However, in the past three years, growth has been dramatic. Store count increased to 27 from 11, and sales rose to a projected $700 million from $165 million in 1987.

(Continued on page 26)

Child World Plans Prototype Rollout

By Laura Liebeck

AVON, Mass. — Child World will spend $10 million to $12.5 million next year renovating 20 to 25 units to its latest store prototype.

At $500,000 per unit, most of the toy chain's 36,000-square-foot stores will eventually be renovated to resemble its Framingham, Mass., model, which opened a year ago, said Peter Hayes, president and chief executive.

"The plan is to continue renovations until we're done," said Hayes, noting that currently there is no time frame for completion of the project.

"I want us to be America's favorite toy store," he said, reiterating the chain's mission statement.

Hayes said he wants Child World to offer customers a fun and exciting place to shop for toys in addition to providing them with cleaner, brighter stores, more friendly and informed sales help and the necessary selection, product availability, and price to win over the customer.

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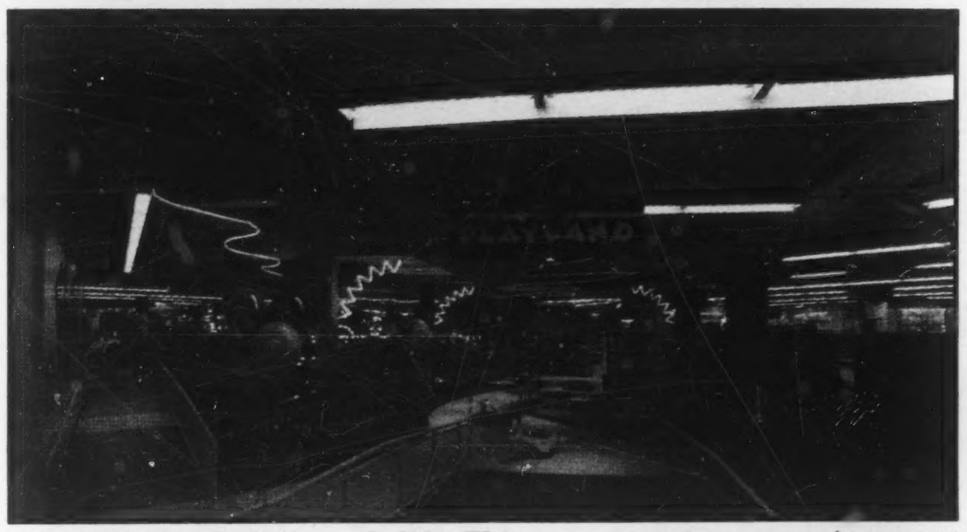

***Child World, Del Amo, Calif.: This new prototype** contains 8,000 sku's rather than the usual 12,000.* (Courtesy of Child World)

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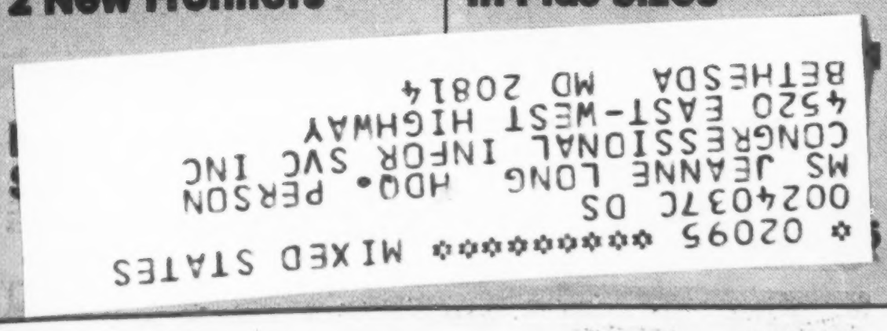
Burlington Blazes 2 New Frontiers

Bigger is Better in Plus Sizes



Motor Oil Prices Skyrocket 34%

By Richard C. Halverson

CHICAGO — When motorists buy motor oil next month, they're apt to get the same kind of sticker price shock they've experienced at the gas pumps for the past three months.

With a 60-day notice to their customers, oil companies have raised the wholesale price of motor oil by as much as 34% since August.

Those price increases represent the major news affecting discounters coming out of the 1990 show of Auto Parts and Accessories Association held here last month.

Discounters traditionally feature motor oil as a loss leader to build traffic, such as Venture, which advertised Pennzoil for 89 cents a quart the week of Oct. 22.

Anybody who sells Pennzoil for 89 cents a quart is losing money, according to John Hey, a chemicals buyer for Western Auto, the Kansas City, Mo.-headquartered subsidiary of Sears, Roebuck & Co.

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MARKETWATCH

Onkyo U.S.A. Challenges Best Buy's Suit

MINNEAPOLIS — Onkyo U.S.A. has asked a federal court judge to dismiss charges brought by CE retailer Best Buy that the audio supplier discriminated against Best Buy and artificially maintained minimum resale prices on its goods. Onkyo contended that Best Buy's testimony "failed to substantiate . . . antitrust conspiracy claims." Onkyo also asked for damages based on breach of contract, brought about by Best Buy's Concept II "self-service stores" that Onkyo said specifically violate a dealer agreement to "support and develop sales" and "to sell Onkyo products only in retail stores suitable for the sale of sophisticated audio products."

ShopKo to Recycle Plastic Bags

GREEN BAY, Wis. — ShopKo has launched a program at all 104 stores to recycle plastic bags. Each store provides a recycling bin where customers can deposit clean plastic bags from any retailer. The chain then ships them to its supplier to be recycled into either more plastic bags or other products. ShopKo itself uses bags made partially of recycled plastics. The chain refused to disclose the cost to run the program.

Pic 'N' Save Picks Williams

DOMINGUEZ, Calif. — Pic 'N' Save named Len Williams, former president of Caldor and former ceo of the defunct Gold Circle chain, as its new chief executive officer and president. He succeeds Lewis B. Merrifield III, a lawyer who resigned last July following the turmoil of an aborted takeover attempt. As the nation's second largest closeout chain, Pic 'N' Save operates 186 stores.

Target Opens Southeast DC Facility

TIFTON, Ga. — Target's newest distribution center serves the chain's expanding Southeast market. The 750,000-square-foot facility provides a 15,000-square-foot attached single-story administrative office building and a second 5,000-square-foot office area in the warehouse building. A shipping and receiving office is located in the rear of the building. The new DC has 169 truck docks. Target has 15 stores in Georgia and six in Florida. The retailer's aggressive five-year expansion targets growth in the Southeast, especially in Florida, where over 50 stores are planned.

Mrkonic to Head Kmart's Specialty Arm

TROY, Mich. — George R. Mrkonic Jr. has been named executive vp of Kmart's specialty retailing division. He will oversee Pay Less Drug Stores and Waldenbooks, two divisions that formerly reported directly to chairman Joseph Antonini. Upon the retirement of Larry Parkin, who now oversees Pace Membership Warehouse, Sports Authority and Builder's Square, Mrkonic will also be responsible for those businesses, reporting directly to Antonini. Mrkonic, 38, joins Kmart from Eyelab Inc. a subsidiary of Cole National Corp. that was recently sold to Pearle Inc.

Alexander's to Sell 4th Store Lease

NEW YORK — Alexander's plans to sell the lease of its 260,000-square-foot store in the Roosevelt Field shopping center in suburban Garden City, N.Y., to its landlord for $25 million and expects to record a pretax gain of about $17.5 million when the move is completed by February, 1991. The unit's retail performance "has been marginal," chairman Robin L. Farkas said, accounting for less than 6% of the chain's revenues last year. The discounter has been selling store leases when the sites have more real estate than retailing value, gaining $43 million in pretax income from the sale of three leases in the past few years.

FOR THE RECORD

In *DSN*'s Top Brands Survey (Oct. 1) Franklin, a producer of baseball, basketball, soccer and volleyball equipment, was incorrectly reported as having dropped five places to ninth this year. Franklin actually placed seventh among store managers as a top performing brand in sporting goods, tied with MacGregor and Murray. In the 1989 survey, Franklin tied for seventh place with Garcia, a maker of fishing equipment.

Although in seventh place for two years, Franklin was mentioned more often this year as a top performer than it was in 1989. Franklin improved its position substantially among conventional discounters, which named it a top performing brand twice as often this year as they did a year ago.

Burlington's New Frontiers

Off-Pricer Opens Stores in Manhattan, Alaska

NEW YORK — Burlington Coat Factory Warehouse broached the first of two very different frontiers on Halloween day when it opened its first-ever Manhattan store. According to the firm, it will also open its first Alaska store in Anchorage this month.

The five-story, 55,000-square-foot store, three blocks from New York's City Hall and close by the Wall Street financial district, features an expanded men's business wear department that takes up most of two floors. That innovation is expected to spread to other major market stores in Boston, Philadelphia and other cities. The children's wear department is also larger than in most Burlington stores, with juvenile furniture eliminated to partially make up for the increased apparel footage.

***NYC official Norman Silverburg** (l.) welcomes Burlington vps Steven Milstein, Mark Nesci and Andrew Milstein to the Big Apple* (DSN photo)

According to Steven Milstein, executive vice president, the Park Place location is expected to do better than most Burlington locations in per square foot sales. Its proximity to Wall Street and City Hall will provide almost unlimited local foot traffic, and Milstein expects the store to be a weekend magnet for Brooklyn and Queens shoppers, much as the nearby J&R Music World draws thousands of such shoppers each Saturday.

The store opening was marked by the presentation of an Economic Vitality Award from the office of New York mayor David N. Dinkins. Norman Silverburg, a representative of the Mayor's Office of Economic Development, presented the award to Steven and Andrew Milstein, their mother, Henrietta Milstein, and vice president, store operations Mark Nesci in a brief ceremony.

Burlington now operates 160 stores in 37 states, and will have added 10 more by fiscal

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Store Design Focus of IMRA Confab

SAN FRANCISCO — The past year has seen a succession of "Stores of the '90s" from such mass retailers as Wal-Mart, Kmart, Target, Ward, Clover, Caldor and Bradlees, and more are scheduled. Which will be the winners and which the losers?

That will be the major subtheme of the annual IMRA Store Planning & Design Conference, which will take place later this week (Nov. 28 to 30) at the Westin St. Francis hotel in San Francisco.

The convention will feature speakers like Don Clarke, chairman and ceo of Caldor, which recently unveiled its new prototype; ShopKo's director of store planning, construction and engineering, Michael Wilson; Jamesway vice president of store planning, maintenance and construction Al Petrillo; and Dan O'Harra, senior vice president of operations, Caldor.

Discussions will feature more than simply store design, however. Topics to be addressed include future design trends, space management, the manufacturer's role in merchandise presentation, visual merchandising, fixturing, planning a remodel, and innovative ideas in European store equipment.

The cost for the three-day event is $450 per person for members, $800 per person for non-members, with discounts for additional attendees. For more information, contact IMRA at (202) 861-0774.

Pamida Sales Increase, Profits Decline In 3Q

OMAHA, Neb. — In its first financial report as a new public company, Pamida reported a 4.6% decline in operating income on a 4.1% sales gain for its third quarter.

Same stores sales slipped 2.2% for the period ended Oct. 28, although comparable store sales increased 1.5% for Pamida's first nine months.

For the quarter, Pamida sales increased to $159.5 million from $153.2 million in the year earlier period. Sales for the year to date rose to $468.6 million from $439.2 million last year.

Operating income for the third quarter dipped to $7.9

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Mass Merchants Gain Ground in H&BA

H&BA Sales By Channel of Distribution

	1989 Mass Merchandisers	1989 Food Stores	1989 Drug Stores
Total Share H&BA*	18.3%	43.2%	38.5%
Camera, Film	34.1	29.2	36.7
Home Wave Kits	33.0	19.6	47.4
Women's Hosiery	27.6	44.6	27.8
Hair Color	27.3	19.6	53.1
Soft Contact Lens Solutions	26.5	26.7	46.8
Baby Powder	26.0	43.1	30.9
Hair Fixatives	25.6	43.8	30.6
Mousse	25.1	42.7	32.2
Batteries	24.2	43.8	32.0
Pre-Moistened Towelettes	23.9	59.5	16.6
Shampoo	22.2	49.9	27.9
Deodorants	22.2	49.4	28.4
Feminine Douches	21.8	39.9	38.3
Aftershave Lotion/Cologne	21.7	17.6	60.7
After Shampoo	21.6	43.0	35.4
Cotton Swabs	21.1	53.0	25.9
Color Cosmetics	21.0	19.3	59.7
Bath Products	20.9	29.8	49.3
Mouthwash	20.8	50.3	28.9
Shaving Cream	20.5	48.8	30.7
Hand & Body Lotions	20.1	36.8	43.1
Blades & Razors	19.8	50.3	29.9
Ethnic Hair Preps	19.8	22.3	57.9
Face Creams & Lotions	18.9	24.2	56.9
Dentifrice	18.5	58.7	22.8
Disposable Diapers	17.6	72.3	10.1
Sanitary Protection	16.9	57.5	25.6
Laxatives	14.5	28.2	57.3
Stomach Remedies/Antacid	14.4	43.4	42.2
Foot Remedies	14.3	29.0	56.7
Internal Analgesics	14.1	49.8	36.1
Topical Hydrocortisones	13.8	28.0	58.2
Sinus Remedies	13.2	47.3	39.5
Cold Remedies	11.7	44.3	44.0
Early Pregnancy Test	11.7	19.1	69.2

*Refers to the market share of health and beauty aid products captured by each retail channel.

Source: Nielsen Marketing Research

By Jill Lettich
Exclusive Nationwide Study

Mass merchants grabbed an expanded share of the health and beauty aids market last year, according to the latest figures from Nielsen Marketing Research. Coupled with a 2% increase in unit count for the year, Nielsen's 1990 Review of Mass Merchandisers, released exclusively to *Discount Store News*, paints a positive picture of the discount tier.

The comprehensive Nielsen study includes reports and figures on pertinent issues to mass merchandisers. Part 1 of the report, presented here, reviews the overall growth trend in the mass market as well as the quickly expanding health & beauty aids area.

In addition to an overview of mass merchandisers, the Nielsen survey extensively covers specialty departments such as the pharmacy and grocery areas. The study also reviews retailer advertising and merchandising trends. These will be reported in a later edition of *DSN*.

The universe of mass merchants upon which the Nielsen research is based includes 6,681 retail stores, a 2% gain from the 6,576 stores in 1988.

The Central and Pacific regions were the largest beneficiaries of store unit growth. The number of outlets went from 554 to 596 in the Pacific. The Central region recorded a slight increase going from 2,388 units to 2,470.

The Eastern region of the country remained virtually unchanged with 1,283 units. The South lost outlets and went from 2,354 to 2,332.

Despite the 2% growth in total store units, there was no change in the total square footage of selling area among the mass merchants, according to Nielsen.

The Pacific region was the only one showing any significant growth in square feet of selling space. It went from

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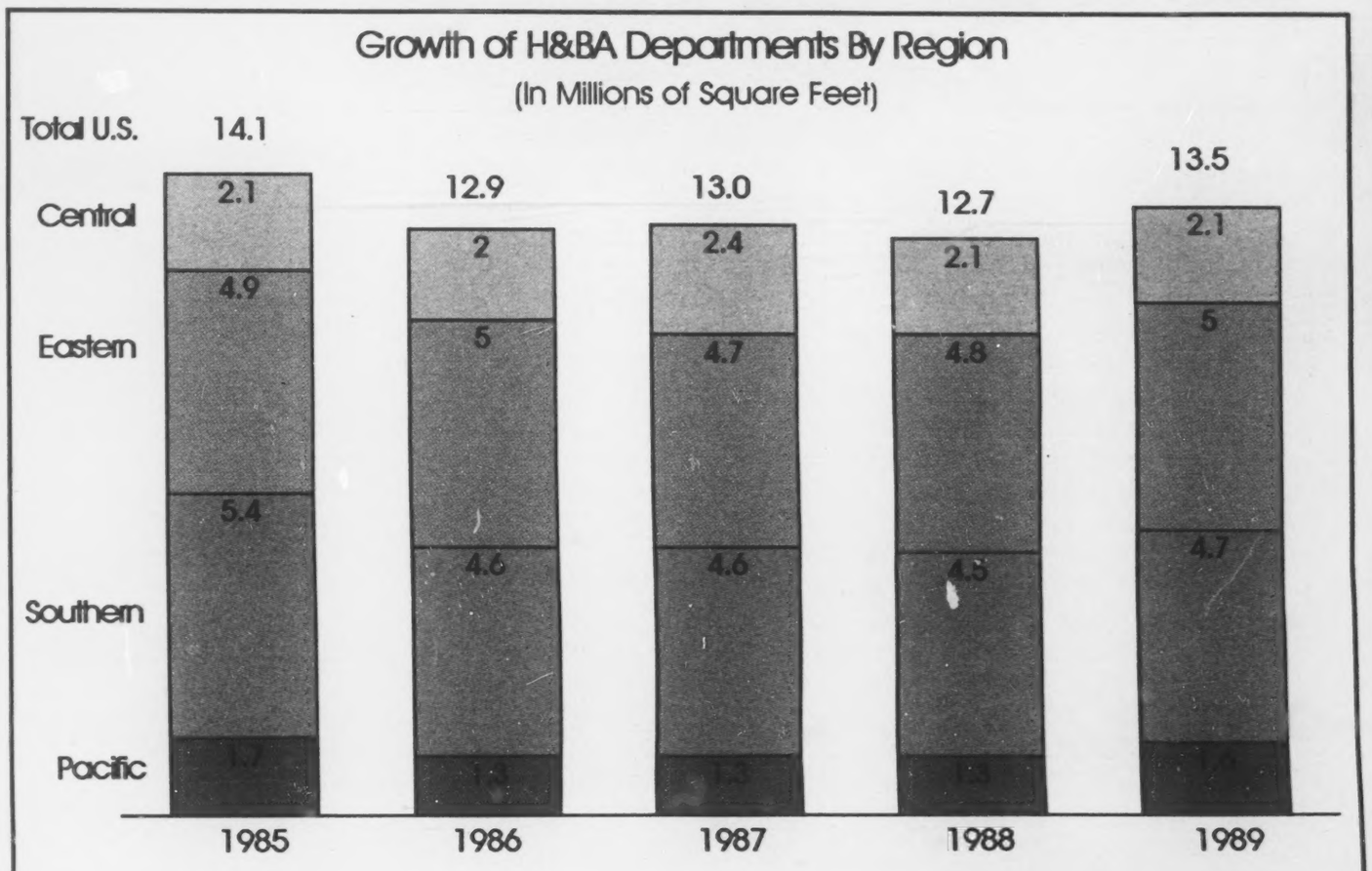


Source: Nielsen Marketing Research

Ruling Forces Sam's to Drop 'Wholesale' Name

Sales tax evidence convinced a Superior Court judge in North Carolina last month that Sam's was doing the preponderance of its business at retail.

By Richard Halverson

BENTONVILLE, Ark. — Most of the goods that business members buy from Wal-Mart's Sam's Clubs are purchased for use within businesses and for personal use, rather than for resale.

That's the conclusion drawn from a North Carolina judicial ruling ordering Wal-Mart to drop the word wholesale from the name of its Sam's Wholesale Clubs. The reason: only 11% to 15% of its sales were exempt from sales tax because the merchandise was intended for resale, including food that restaurants purchase, whereas state law requires at least 50% for a company to use wholesale in its name. (North Carolina consumers pay a 5% sales tax on food.)

With the exception of four Kansas City, Mo., units, all clubs now go by the name of Sam's Club. In order to comply with the court ruling, Sam's changed the signs on its five clubs in North Carolina but won't waste money changing them on existing units.

On new clubs, however, storefront signs and membership materials read Sam's Club.

On the newest Sam's, opened Oct. 29 in Sioux Falls, S.D., the storefront sign reads Sam's Club. Sam's oper-

(Continued on page 26)

IKEA Opens 1st California Store

Chain Aggressively Pursues International Expansion

By Mary Ellen Kelly

BURBANK, Calif. — Bright blue T-shirts with yellow lettering beg the question: "Why did it take four years for IKEA to come to Southern California?" The back of the T-shirt purports to provide the answer: "Traffic."

While residents of Burbank and surrounding areas smile wryly when the Swedish company jokes about the sore reality of driving a car in Southern California, traffic did not keep consumers from flooding the first IKEA on the West Coast.

The 240,000-square-foot home furnishings megastore in Burbank, opened earlier this month in 41-acre Media City Mall, is the first of four IKEA stores scheduled for construction in the Greater Los Angeles market.

Growth on the West Coast will be supported by the construction of a new distribution center in the Inland Empire region, East of Los Angeles. Plans are to have the DC up and running within the next two years. Internationally, IKEA distributes to its stores in 21 countries with 21 DCs.

The Burbank store is expected to contribute $50 million in sales to the company's annual business, according to Göran Carstedt, president of IKEA North America. IKEA's U.S. sales for 1990 are projected to reach $280 million, according to Carstedt.

Göran Carstedt, president, IKEA, North America.

The new store is just a piece of the aggressive international expansion roster for the decade, outlined by IKEA executives during a pre-opening press conference at the Burbank store.

A second California IKEA will open in Fontana early in 1992; the two other stores for the Los Angeles market are expected to be up and running by the end of 1993. Currently five U.S. stores are open: Philadelphia; Washington, Baltimore; Pittsburgh; Elizabeth, N.J.; and Burbank.

Carstedt said that in addition to a previously announced spring opening on Long Island, two more stores will be opened near the New York metropolitan market. IKEA's North American flagship store was opened roughly a year ago in Elizabeth, N.J. Other North American openings during 1991 include IKEA's eighth store in Canada, its second for the Toronto market.

Anders Moberg, president and chief executive officer of IKEA Worldwide, noted that 1990 marked IKEA's first stores in both Hungary and Poland and that the first IKEAs in

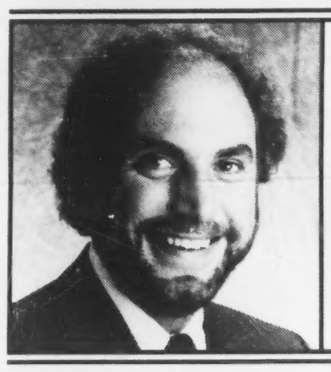
(Continued on page 25)

EDITORIAL

Retailers Yen for Urban Opportunities

There's something happening in retailing today—something that many industry observers would never have predicted—that reminds me of a song made famous by singer/composer Peter Allen that proclaims "everything old is new again."

Discount retailers are rediscovering urban development. The "unlimited" growth in the suburbs has slowed and retailers are now returning to the downtown areas that they once shrugged off.



TONY LISANTI
Editor

Consider what's happened in New York. Traditionally, high rent, lack of prime space, and the general high cost and hassle of doing business had retailers convinced the Big Apple would be a big bust. But things have changed.

- Lionel Kiddie City opened its first store on 34th Street in late 1988 becoming one the few discount chains operating in Manhattan. It opened its third unit last month on 79th Street and Broadway.
- Burlington Coat Factory opened its first Manhattan store—a five-story unit three blocks from City Hall—last month.
- Toys "R" Us opened its first Manhattan store—a three-story unit on Broadway and 34th Street—earlier this month.
- Kids "R" Us will open on 34th Street in Spring 1991.
- Union Square Shoppers Club—Manhattan's first membership warehouse club—is scheduled to open this month.
- Marshalls is constructing its first Manhattan superstore at 14th Street and Union Square.
- Alexander's opened its first department store in 10 years last May in an ethnic neighborhood in the Bronx. TSS had previously occupied the site.
- Other specialty discounters which also now operate stores in Manhattan include Nobody Beats The Wiz, Staples, Kay-Bee, Modell's and Herman's.

Furthermore, Caldor recently opened a 130,000-square-foot "neighborhood" store in Queens. It's the first of four stores planned for Long Island. Kmart also has plans for 12 stores in the Greater New York area with its first store opening Nov. 28 in Babylon. Could Manhattan be next for these full-line discounters?

Surprisingly, the New York market hasn't really changed that much since the early '70s when E.J. Korvettes was a household name among retailers with its nine-floor flagship store sandwiched between Macy's and Gimbel's at 33rd Street and Herald Square. It still offers the same characteristics: dense population, high traffic and middle-class customers. All it takes is some flexibility and creativity towards operations, layout and design.

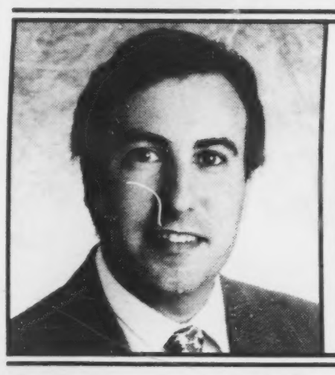
Throughout the 1990s, more and more discounters will discover that many urban areas are no longer centers of decay, but pockets of opportunity.

BUYERS & SELLERS

Economy, Mideast War & Business Courage

It appears fairly certain that retailers, their suppliers and their customers will face harsh economic conditions in the year ahead. How harsh is hard to tell.

Recent *DSN* research indicated that consumers are far more concerned with their own income prospects than they are with the current crisis in the Mideast. However, a rapid conclusion to the Mideast stalemate could effect the greatest immediate change on the state of consumer confidence and could provide the biggest lift or depressant on sales.



DON LONGO
Exec Editor

Here's what could happen:

1. The military buildup in Saudi Arabia will continue and U.S. troops will clash with Iraqi forces.

Outcome: A.) American troops achieve a swift victory, oil prices plummet and consumers open their pocketbooks in a short-term binge of post-police action spending; or,

Outcome: B.) American troops encounter stiff opposition, the body count swells, inflation skyrockets and the economy hits the rocks.

2. The military buildup will continue and U.S. troops will sit and sweat it out in the desert as Bush and Hussein continue to lob insults (instead of grenades) at one another.

Outcome: Essentially same as 'B' above, sans body counts.

3. Bush and Hussein will reach a compromise, non-military solution to the Mideast problem, and military tensions, at least as far as the United States is concerned, ease.

Outcome: Same as 'A' above.

No one can predict with certainty which way the situation will go. So, retailers, suppliers and all businesses are understandable skittish about 1991.

This may sound like yelling into a wind tunnel, but I feel the best course of action for retailers and suppliers alike is to be aggressively conservative in their plans for the coming year. Don't let despair over the economy become a self-fulfilling prophecy. I like a recent comment I heard from Bill Berry, president of Anchor Hocking Glass, in describing the attitude of its parent company Newell: "We will be profitable. We will invest in our business. We will aggressively expand our business. We will be customer focused and we will be a leader."

No wonder Newell has been one of the most successful American businesses of the past decade. Companies with the backbone to follow that strategy will be tomorrow's leaders.

READERS' REPLY

Dear Editor:

After reading your editorial, "A Ray of Hope Shines on York, Pa.", I could not help but think of our recent visit to Bentonville, Ark., and the surrounding area.

The Wal-Mart Company invited their key craft vendors to participate in a "make it—take it" craft fair. The reason for my writing to you is that whether it was touring a Wal-Mart warehouse, visiting the new visitor's center, or having a 5:30 a.m. breakfast meeting with Mr. Sam Walton, the Wal-Mart enthusiasm and spirit is a truly amazing phenomena. When people asked, what kind of time is 5:30 a.m. for a meeting, they were told it is Wal-Mart time.

—David Blumental
Lion Brand Yarn Co., New York, N.Y.

Dear Editor:

While I found your editorial in the Nov. 5 issue interesting, I must disagree with your statement that Toys "R" Us hopes to be the first U.S. retailer to operate in Japan. For several years, Sacramento, Calif.-based Tower Records has been operating stores in Japan with considerable success. They currently have 10 stores in Japan.

It is unfortunate the retail press has not written must about this exceptional retail operation. Tower, one of America's premier music retailers, has operated stores in Europe for a number of years as well.

—George Whalin, president
Retail Management Consultants, Inc., Chicago, Ill.

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Mass Merchants Gain Ground in H&BA

(Continued from page 3)
39.4 million square feet of selling space in 1988 to 42.1 million square feet in 1989.

In line with the decrease in the number of southern mass merchant outlets, the South recorded less than 1% growth in square footage. It remains, however, the region with the largest amount of selling space, 136.7 million square feet.

The Eastern and Central regions lost space, the study noted. In the East, space went from 79.9 million square feet to 78.7 million square feet. In the Central region, space went from 139.5 square feet to 136.7 million square feet.

In total, mass merchants had a total of 380 million square feet of selling area in 1989, the same as in 1988.

That same figure averages out to 56,000 square feet of selling area per store, a decline of 2% from 1988's total of 57,917 square feet.

After a sharp increase in 1986 when the percentage of selling space increased 9%, the growth of mass merchant outlets has stabilized. The average annual percent change reported for square feet of selling area per store for the last three years is 1.4%, the Nielsen survey reported.

Discounters may not have added on much selling space in 1989, but how they used it changed considerably. The H&BA department gained an impressive 6.1% of retail selling space, arriving at a total of 13.5 million square feet in 1989. This is up from 12.7 million square feet in 1988.

With this increase, the mass merchant tier has managed to gain some valued H&BA customers from food store and drug store shoppers. In fact, four H&BA categories sold better at mass merchants than in other outlets.

Home wave kits, hair color, aftershave lotions and colognes, and color cosmetics sold better at mass merchants than at food stores, according to the survey. In two categories, pre-moistened towelettes and disposable diapers, mass merchants outsold drug stores. Mass merchants also placed high in sales of soft contact lens solutions and ethnic hair preparations.

While the increase in H&BA is significant, the entire category has been through a roller coaster ride in the last few years. In fact, the results of 1985 to 1989 show a definite cyclical pattern.

After a 1985 high of 14 million square feet of H&BA selling space, it declined 7% to 12.9 million in 1986. It went back up to 13 million square feet in 1987, and back down to 12.7 million square feet in 1988, before settling at 13.5 million in the latest study.

Averaged per store, the Nielsen study found that the H&BA department accounted for 2,018 square feet of selling space. That equals 4.2% of the total mass merchant space at each outlet. The increase was only 2 percentage points higher than that reported in 1988.

Overall, in the last three years, H&BA has garnered a 1.3% rise in floor space for that time frame.

In Nielsen's latest figures, H&BA accounted for 3.5% of selling space in mass merchandiser outlets as a whole. This is the same as in 1987, but just off the 1984 high of 3.8% of total mass merchant selling space.

Of the 6,681 outlets included in Nielsen's study, 6,668 feature H&BA items.

Again, the Central and Pacific regions recorded the largest H&BA space allocation growth.

The South showed a 1% decline in H&BA square feet of selling space, while the Eastern region remained stable.

The H&BA items that are selling in these increased departments are a testament to demographers. Nielsen's "very hot," products—those with dollar sales increases greater than 15% between 1988 and 1989—shows there is a baby boom going on. Disposable diapers, early pregnancy tests and diaper rash creams all made this list.

This category also included some "graying of America" items such as foot remedies, denture products and arthritic remedies.

After-shampoo lotions, aftershaves, and lip and face makeup were among the "hotter" products. Nielsen defined these as increasing between 10% and 15% in 1990.

The "hot" list (sales increases between 5% and 10%) featured the arthritic remedies, hair color and eye makeup.

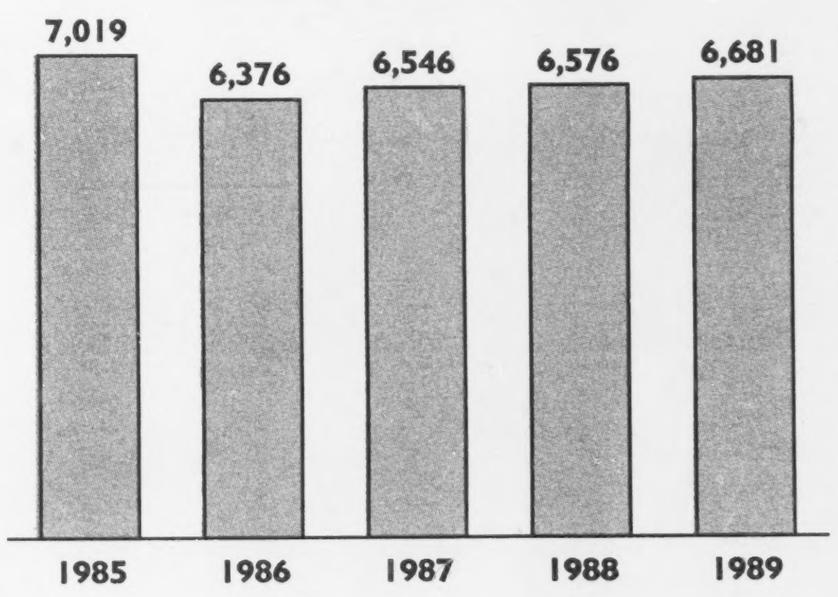
Cotton swabs, baby powder, deodorants and bath prducts were "warm," with sales increases between 0% and 5%.

The "not so hot" category included shaving creams, talc, ethnic hair products and, surprisingly, baby oil and lotions.

According to Neilsen, deodorants occupy the most shelf space in the H&BA area. Diapers, sanitary napkins and shampoo run close behind.

According to Neilsen, mass merchandiser outlets totaled 6,681 in 1989 and that is the number all its figures are based on. The firm defines mass merchandisers as presenting a discount image, having 10,000 square feet or more of selling area and handling at least three merchandise lines. The total may differ from *DSN* estimates. For a comprehensive look at the major mass merchants, refer to *DSN's* annual industry reports, in the July 2 and July 16, 1990 issues.

Growth in Number of Mass Merchandiser Outlets



Source: Nielsen Marketing Research

Very Hot
(Dollar sales increases greater than +15%)

Disposable Diapers
Sinus Remedies
Early Pregnancy Test
Topical Hydrocortisones
Face Creams & Lotions
Diaper Rash Creams
Diarrhea Remedies
Pre-Moistened Towelettes
*Camera, Film
Foot Remedies
Soft Contact Lens Solutions
Mouthwash
Suntan Lotions & Oils
Hand & Body Lotions

Hotter
(Dollar sales increases over +10% thru 15%)

After Shampoo
Toothbrushes
Lip Makeup
Laxatives
Cold Remedies
Shampoo
Aftershave Lotion/Cologne
Denture Adhesives
Face Makeup
Internal Analgesics
*Women's Hosiery
Home Wave Kits
Nail Color
Nasal Spray
Vitamins

Hot
(Dollar sales increases over +5% thru +10%)

Arthritic Remedies
Hair Color
Denture Cleansers
Eye Makeup
Throat Lozenges
Sanitary Protection
Blades & Razors
Stomach Remedies/Antacid
Dentrifrices

Warm
(Dollar sales increases over 10% thru +5%)

Cotton Swabs
Hair Fixatives
Men's Hair Preps
Baby Powder
Deodorants
Depilatories
Bath Products
Mousse
Women's Fragrances
Women's Contraceptives

Not So Hot
(No dollar sales growth or decline)

Shaving Cream
Talc/Dusting Powder
Feminine Douches
Ethnic Hair Preps
Baby Lotion
Baby Oil
Dieting Aids
Batteries

**Products not included in Health and Beauty Aids category.*

Source: Nielsen Marketing Research

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Bigger Keeps Getting Better

Discounters Expanding To Meet Needs of the Plus Size Woman

By Jill Lettich
Nationwide DSN Report

If bigger is better in retailing, then nowhere is this more true than in plus sizes.

Plus size apparel currently constitutes over 25% of the women's wear market, according to industry statistics. This easily explains why the plus size department at major discounters has been expanding, and why more apparel manufacturers target that customer.

From jeans to pantyhose, quality products on the market has been steadily improving.

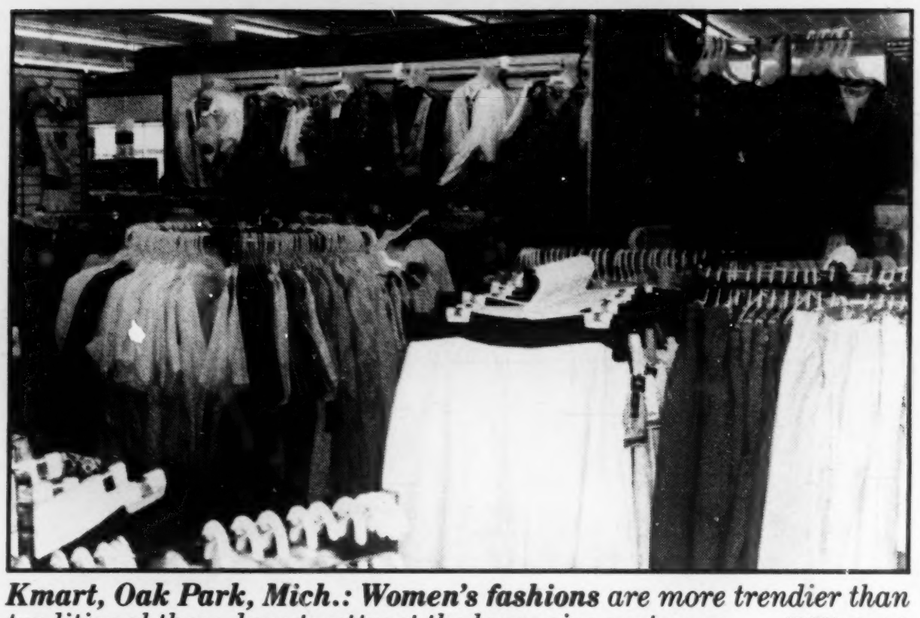
The dowdy, oversized duster has been replaced with fashionable garments from brand labels such as Bonjour, Gitano and Just My Size.

The look of the plus size department has changed for the better as well. In the new Kmart prototype, the department has a trendier, fashionable flavor. At off-pricers such as Marshalls, the department has also been given generous spacing, and offers tailored suits in addition to the more predictable larger sweatsuits.

In research for its new bra and panty line, Just My Size estimated that there are 30 million customers out there. Of interest to retailers in ethnic markets is the fact that plus sizes encompass 25% of the black market.

The new Just My Size undergarments—the brand has already made a hit with pantyhose—may change further the image of the department.

"A customer, either a large or regular size, does not easily walk into the lingerie department of a Bradlees," said Charles Forrest. "But with our new line, we hope to help discounters build this area and get shoppers accustomed to expecting quality items."



***Kmart, Oak Park, Mich.: Women's fashions** are more trendier than traditional these days to attract the large size customer.* (DSN photo)

In most cases, discounters and off-pricers have already managed to meet customers expectations.

Dress Barn, Stamford, Conn., is in its second year of operating Dress Barn Woman. According to Michael Palmer, executive vp, the concept is beginning to take hold as more customers become familiar with the idea. "We're up to 28 stores now and same store sales are beginning to show increases. We found a niche where we felt there was a real void," he said.

Dress Barn Woman opened in markets already served by Dress Barn. It is also now experimenting with adjacent stores separated, Palmer noted, with a partial wall. The design "takes advantage of the labor force we have." Palmer said six more stores are slated to open in the spring.

Another specialty retailer that has entered this realm is Sizes Unlimited/Lerner Woman, which recently changed its name to The Avenue. Steve Atamanchuck, a spokesman for the firm, said the two former divisions of The Limited were merged and bought out by management two years ago because of the growth spurt experienced by this market.

"There are plenty of opportunities out there," Atamanchuck said. "It is a merchandise area that is growing by leaps and bounds." The chain currently operates 367 stores.

Sizes Unlimited was considered the off-pricer among the two chains. Atamanchuck expects to retain value price-points within the stores, though more moderate to better merchandise may be added.

Discounters have long led in sales for this market. In a study by Kurt Salmon Associates in 1989, discounters accounted for 29.4% of the market for women's full-figure sportswear, dresses and suits, by far the largest share of all distribution channels. Specialty stores came in second with 20.4% followed by department stores, chains—identified as JCPenney, Sears and Montgomery Ward, catalog/mail order and off-pricers.

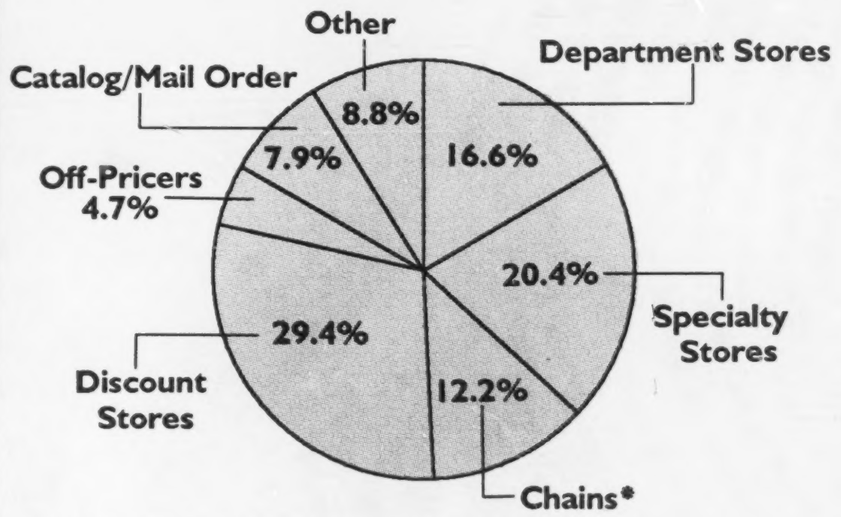
Discounters may find themselves with an even bigger piece of the pie if some manufacturers have their way.

Forrest envisions a Just My Size line of fleecewear merchandised with its pantyhose and undergarments. The company is a division of Sara Lee Corp., which also produces Hanes sweats. The three product lines could become the first branded store-within-a-store concept for a special size.

Forrest also noted that many of the discounters now carrying the lines in different departments are referencing the brand name. In the hosiery section, placards announce the availability of the bra and panty line in the lingerie or plus size area.

According to KSA's study, there is potential for big spending sprees in this group. The study reports that 38% of all large-size apparel is purchased by women in the lowest income levels (less than $20,000), which bodes well for discounters. More interesting is that 24% of all large size garments is purchased by women in the over $40,000 income level. This level is only 20% of U.S. households, however.

Share of Women's Large Size Market



**JCPenney, Sears & Montgomery Ward.*

Source: KSA/NPD Purchase Panel

MARKETWATCH

T.J. Maxx, Filene's Basement Lease Chicago Space

CHICAGO — Filene's Basement and T.J. Maxx both signed lease agreements for space at the One North State building, here. The space is located in one of Chicago's main shopping districts, near Marshall Fields and Carson Pirie Scott.

This is Filene's Basement's first foray into the Midwest. The off-price apparel retailer currently has stores in Massachusetts and New York. At this location, a development owned by The Tucker Cos., Filene's Basement will occupy about 55,000 square feet in the basement of the complex.

T.J. Maxx will occupy 45,000 square feet on the second floor. The company is based in Framingham, Mass.

Exquisite Form To Go No Nonsense

GREENSBORO, N.C. — Kayser-Roth Corp. has announced a new licensing agreement with Exquisite Form Industries for the production of a line of bras and control panties under Kayser-Roth's No Nonsense brand name. The line will be available in mid-1991, according to the company. Other brands made by Kayser-Roth include Calvin Klein and Burlington hosiery, and PrimaSport, PrimaNatural, Burlington, Levi's and SuppHose socks.

The firm also holds a licensing agreement with Alba-Waldensian, which manufactures a line of No Nonsense panties to be in discount stores in January.

Sarah Coventry Gets Silver Line

NEW YORK — Sarah Coventry granted a licensing agreement to Jaybee Industries to design, produce and distribute a line of sterling silver jewelry in the United States. A full line of sterling silver jewelry will be available in stores for spring '91. Betsy Kain, brand director for Sarah Coventry, noted that "sterling silver is a natural extension of the brand into the bridge department."

Goody's Family Opens 94th Unit

KNOXVILLE, Tenn. — Goody's Family Clothing recently opened its 94th store in Glasgow, Ky. The opening coincided with the expansion of two stores in Georgia and Tennesse. The LaFayette, Ga., unit went from 9,000 square feet to 20,400 feet. The LaFollette, Tenn., store went from 15,000 square feet to 19,500 square feet.

Bonneau To Take Over Foster Grant

LEONMINSTER, Mass. — Bonneau Co. announced that it will acquire all of the assets of the Foster Grant Co. Foster Grant had filed for Chapter 11 bankruptcy protection in August. The motion filed seeking approval for this sale included the Foster Grant trade name and its foreign subsidiaries. The sale should be completed by the end of this month.

Ruling Forces Sam's to Drop 'Wholesale' Name

(Continued from page 3)
ates 141 units and expects to end the year with about 148. (Wal-Mart has just agreed to buy The Wholesale Club, Indianapolis, Ind., for about $175 million, which gives it 28 more club units, plus two other Wholesale Clubs set to open this month in the Chicago market. See story, page 1.)

In Kansas City, Sam's calls its units Walton's Wholesale Clubs. Sam's Department Stores, now down to one discount store from three in 1987, has owned the trade name Sam's in the Kansas City market since its founding in 1957.

North Carolina began questioning the use of the word "wholesale" when Sam's opened its first unit in the Tar Heel State Aug. 24, 1988. Under state law, a concern must make at least 50% of its sales for resale in order to use wholesale in its name, said David Kirkman, an assistant attorney general for the Consumer Protection Section.

The attorney general warned Sam's that it was violating state law, states the court order filed July 18, but the chain persisted in using the word "wholesale."

A complaint from the Better Business Bureau of Northwest North Carolina prompted action, Kirkman said.

After investigation determined that Sam's collected retail sales tax on 85% to 89% of its dollar volume, exempting at most 15% from the sales tax, Consumer Protection filed suit against Sam's over its name this May, according to Kirkman.

Sam's North Carolina lawyer, John Murchison, argued in court that sales tax exemptions, [such as on food, napkins and paper cups that restaurants buy] made the retail figure misleading, Kirkman said, but Murchison offered no rebuttal figures.

Those exemptions could have increased the resale percentage, according to Kirkman, but nowhere near the 50% mark.

Because retailers are exempt from paying North Carolina sales tax on goods purchased for resale, the sales tax evidence convinced a Superior Court judge that Sam's was doing the preponderance of its business at retail, as state law defines it, Kirkman said.

Sales figures are privileged, Kirkman said, and none for Sam's in North Carolina were disclosed in court.

Sam's total sales in 1989 were $4.84 billion. It started the year with 105 stores and ended with 123. Volume in 1990 will hit $6.2 billion, analysts estimate.

The court ordered Sam's to drop wholesale from its name on July 19, effective a month later.

Murchison, Sam's North Carolina lawyer, was unavailable for comment.

A Sam's source said that the overwhelming majority of its sales are to business members. Much of the merchandise, such as office supplies and equipment, however, is purchased for use within the business, rather than for resale, and thus is taxable.

Changed Name Chainwide

Accordingly, Sam's was unable to fit the definition of a wholesaler under North Carolina law, the source said. For economy, Sam's changed its name chainwide, rather than have to make two different signs and print two different sets of membership materials.

The source refused to disclose the ratio of business to group member sales, but a 1989 Goldman Sachs research report on wholesale clubs estimated that 60% of Sam's sale volume was to business members.

For other clubs, the percentages were: Costco, 68%; Price Club, 65%, Wholesale Club, 62%; BJ's Wholesale, 60%; and Pace, 47%.

Tax experience in other states buttresses the conclusion that wholesale clubs as an industry sell a fairly small percentage of goods for resale.

In Washington, for example, Costco, Kirkland, Wash., and Price Savers, Salt Lake City, Utah, exempted 9.25% of their combined sales volume to businesses (not total volume), from the sales tax because the goods were purchased for resale, estimated Erling Johnson, an economist for the research division of the state Department of Revenue.

The Washington Department of Revenue separates wholesale club sales into wholesale and retail categories for tax purposes. Food is exempt from sales tax, both for consumers and businesses.

State law on tax confidentially precludes disclosure of individual sales figures within the state, Johnson said.

Jim Sinegal, chief executive officer of Costco, said the tax-exempt figure understates the picture, because food that restaurants buy, a major category, already is exempt. Including restaurant food, from 24% to 25% of Costco dollar wholesale volume is for resale goods, he estimated.

At the Warehouse Club, Skokie, Ill., about 20% of total sales, including food, to business members is for resale, estimated president Sherwin Deutchman. [In yet another warehouse club buyout, A&P has agreed to purchase 51% of the chain for $11 million. See story, page 1.]

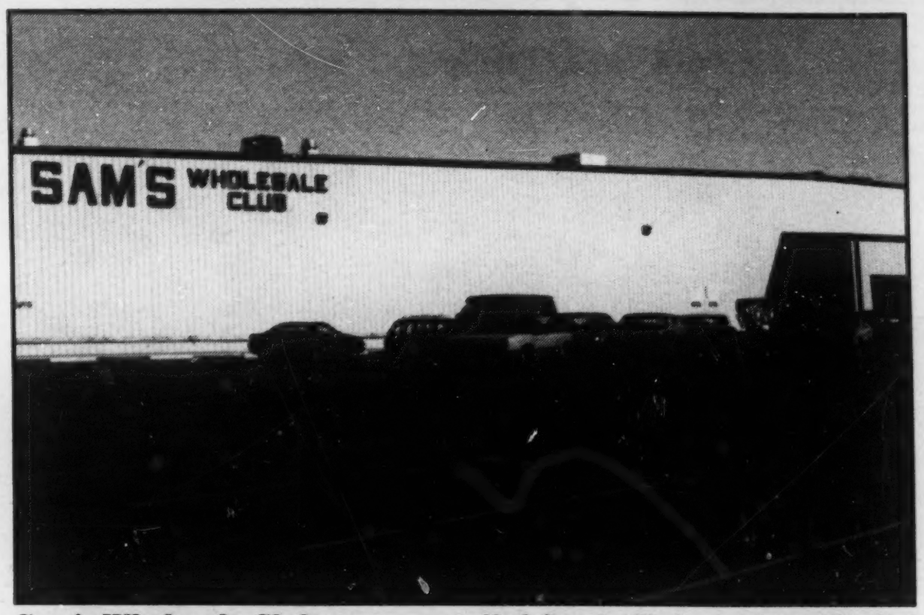
20% Exempt From Tax

In Indiana, approximately 20% of the total dollar volume of the stores of the Warehouse Club and The Wholesale Club are exempt from sales tax, estimated Mike Ralston, an analyst for the Department of Revenue.

The exempt figure for Sam's Club is unavailable, Ralston said, because its sales are lumped in with that of Wal-Mart under Indiana's tax filing system.

Tom Geiss, senior vice president of marketing for The Wholesale Club, said sales to business members fall within three categories: for internal business use; for resale; and, for personal use of business members.

"The explosive growth is coming in the category of internal business use," Geiss said, such as fax machines, personal computers, training



***Sam's Wholesale Clubs are** now called Sam's Clubs nationwide, but most existing store signs will not be changed.* (DSN photo)

VCRs and office supplies.

The resale category is more limited because a wholesale club can't compete with other conventional distributors on service or selection, Geiss explained, with the exception of certain types of merchandise such as food, cigarettes and candy.

A&P Joins the Club: Supermarket Catches Warehouse Club Fever

(Continued from page 1)
offer us growth potential through the next decade," Deutchman said. "They're a $12 billion corporation that has earned over $100 million yearly over the past three years."

According to Deutchman, Warehouse Club has built an experienced management team, particularly over the past year, when it added Dick Palmer, former executive vice president of the now-defunct American Wholesale Club and a Sam's Club manager, as director of operations; Don Costa, as regional director; Buddy Lee, as director of marketing; and Gene Wright, formerly of Makro, as general merchandise manager. Another key acquisition was Tim Fleming, senior soft goods buyer, who joined from Spiegal.

"It's not coincidental that the operations acquired recently all have strong, experienced management," Deutchman pointed out, a sentiment shared by many analysts, who have noted that there are a limited number of experienced, expert managers in the industry.

The result of the management build-up has been a company-wide refinement of merchandising, Deutchman said. Selections of office equipment, furniture, and soft home goods have been expanded greatly, with a concurrent consolidation of major appliances to make room. Food, too, has been sharpened, with fresh produce added and the probability of the addition of fresh meat and scratch bakeries.

"We're looking at both those areas, because we think they offer us growth potential in the future, particularly in light of A&P's expertise in the field," Deutchman said. "We're already seeing growth from fresh produce."

Michael Roarke, A&P's vice president of community and corporate affairs, noted that "60% of the Warehouse Club's sales are in food, and wholesale clubs have been a very successful store type from our perspective. We saw a chance to get involved inexpensively."

A&P also recently purchased 70 Miracle Mart Canadian combo stores, so the company's overall involvement in general merchandise is on the rise, Rourke added.

However, Rourke said that he doesn't see the warehouse club concept ever truly challenging the full service grocery store. "It's strong right now and has a lot of room for growth, but we don't see wholesale clubs dominating the industry," he said.

Although the Warehouse Club lost money in its most recent reporting period (about $720,000 on sales of $200 million for the nine months ended June 30), it has increased its membership rolls and dropped margins. "We have a 70% renewal rate and a new Silver Card, for those over 55, has been a hit since we introduced it this year," Deutchman said. The card sells for $15, compared to $25 for a regular membership, "which has been a good selling point for those on fixed incomes."

Sam's Captures Midwest Club Market

(Continued from page 1)
At the same time, the company has computerized all operations (including front- and back-end scanning), cut margins, increased membership at most units and, after years of building, turned profits in each of the past two years, with fiscal 1991 also expected to be profitable.

Little Club Overlap

Although both clubs compete in some markets, there is relatively little overlap. The Wholesale Club operates exclusively in the upper Midwest, with stores in Indiana, Illinois, Ohio, Wisconsin, Michigan and Minnesota.

Sam's, on the other hand, is strongest in the South and Southwest, where most of its 141 stores are located. It does operate stores in Ohio, but primarily in the Cincinnati area, while The Wholesale Club operates in the northern Ohio cities of Cleveland and Columbus.

Similarly, both operate in Indiana, Sam's in Evansville and The Wholesale Club in Indianapolis, Ft. Wayne and three other cities. In fact, the only true head-to-head competition is in the Chicago area, which both clubs entered recently, and in The Wholesale Club's headquarters city, Indianapolis, which Sam's recently entered.

Both clubs operate units of roughly 100,000 square feet, more or less the industry standard, so there should be no problem adapting Wholesale Club units to Sam's floor plans.

Even without the Wholesale Club acquisition, Sam's was expected to surpass Price as the largest membership warehouse chain this year.

The addition of The Wholesale Club's $700 million or so in annual sales should catapult Sam's to roughly $7.2 billion in sales for fiscal 1991. Price, which posted $5.3 billion in fiscal 1990, ended Sept. 2, will likely generate about $7 billion in fiscal 1991.